

**CITY OF LODI
INFORMAL INFORMATIONAL MEETING
"SHIRTSLEEVE" SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, AUGUST 1, 2006**

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, August 1, 2006, commencing at 7:01 a.m.

A. ROLL CALL

Present: Council Members – Beckman, Hansen, Johnson, and Mayor Hitchcock

Absent: Council Members – Mounce

Also Present: City Manager King, City Attorney Schwabauer, and Interim City Clerk Perrin

B. TOPIC(S)

- B-1 "Presentation of developer responsibility for costs associated with electric line/service extension and possible changes"

George Morrow, Electric Utility Director, reported that staff has been researching how other electric utilities handle the cost sharing for line extensions, what the cost is for providing the service, and whether the City should update its current cost sharing procedure to provide for full cost recovery. Current City policy states that developers are responsible for substructures, which includes pipes, conduits, vaults, transformer pads, and pedestals, and the City is responsible for all other items, including wire, transformers, metering, extending lines, and overhead facilities. A majority of electric utilities place the responsibility for substructures on developers, including the physical work of installation; whereas, the City of Lodi performs the actual work and then charges the developer. Most electric utilities assign all other costs directly to new development or to those who require expansion of the system, and in Lodi, those costs are not currently passed on to developers. In comparison, Pacific Gas & Electric (PG&E), which is an investor-owned utility, rebates the developer/customer over time if it follows through on what it intended to do; otherwise, the rebate is not given and the developer/customer pays the costs. Generally, substation costs are not being assigned to developers; however, the city of Roseville is considering doing so, and the Sacramento Municipal Utility District and PG&E are currently assigning the costs if there is a direct, identifiable substation transmission cost associated with the development. In reviewing a four-year average, Lodi developers have been paying one third (or 33%) of the total cost package, and the City has been paying two thirds (or 67%). On average, this percentage represents \$365,000 to \$500,000 per year in expenses.

In response to Council Member Hansen, Mr. Morrow explained that historically electric utilities incurred all costs because it was a wealthy industry, the costs of distribution were small compared to the cost of new power plants, and the costs were eventually passed on to ratepayers through rates. As time passed, the costs became more significant, particularly with deregulation. Cities began growing dramatically, which prompted municipalities to begin passing the costs on to the developers. Lodi is at that point now where there is significant growth on the horizon, and this would help to realign some of the costs. This trend started about ten years ago, and five years ago most utilities began implementing full cost recovery methods.

In response to Mayor Pro Tempore Johnson, Mr. Morrow stated that there are presently four substations in Lodi. He believed there was enough capacity to serve the existing community, some future development within the current boundaries, and some new development over the next five to ten years should the City choose to annex additional land. At some point, however, new substations will be necessary for either capacity or for reliability. Regarding Delta College, Mr. Morrow believed that the two substations on the

east side of town would meet the increased needs. The concern would be growth in the southern portion of the community, as these areas are further away from existing substations, and it would be sensible to install another substation for better performance. Some electric utilities directly assign costs that are readily identifiable; whereas, others charge an assessment at the time of growth, which is what staff is recommending. Based on staff calculations, a generic substation would cost approximately \$7.5 million, with a transmission cost of \$400,000, and he believed the City would need another substation in five or so years.

Council Member Hansen questioned if the City could show that a new substation would be directly attributable to new development alone as opposed to both new development and existing service. Mr. Morrow responded that it would be the latter as the substation would be connected to the entire system, therefore, providing a benefit to the entire community.

Mayor Hitchcock questioned if a substation would be needed if the City had no further growth, to which Mr. Morrow responded in the negative; however, he explained that it may be needed in order to provide better reliability. Currently, there is a transmission line that brings bulk power from the PG&E Lockeford substation from the east; Lodi is impacted each time that substation experiences a problem, and it would be prudent to have another line coming into Lodi.

Mr. Morrow reported that the proposal from staff is that the developer/customer be responsible for all distribution system costs related to their expansion project and that there be an assessment for future substation transmission. The revenue from this proposal would be \$500,000 that could be set aside for reserves and could eventually help to keep rates low. For a typical 200 amp residential lot, developers currently pay \$750 and the City pays \$1,050, and this proposal would move the City's cost to the developer. With the recommended assessment fee of \$819 for substation transmission, the additional cost to the developer for a typical residential lot would be \$1,869, for a total cost for electric expansion of \$2,619.

In response to Mayor Pro Tempore Johnson, Mr. Morrow stated that the proposal does not change the type of equipment installed; the issue is who pays for it. During the recent heat wave, the City lost only 6 out of 3,600 transformers, where some utilities lost 10%.

In response to Council Member Beckman, Mr. Morrow explained that many investor-owned utilities manage their costs similar to PG&E, which may be due to their regulatory model and because they operate in hundreds of communities. Investor-owned utilities pass all of the costs through the rate base and make a profit on their investment. Mr. Beckman added that, in order to increase their customer base, they offer programs that do not penalize those who want to build in their area and he believed this put Lodi at a disadvantage to attract new business. Mr. Beckman felt that the City's transfer to the general fund from Electric Utility is considered a profit, as it is based on the number of customers. Mr. Morrow clarified that the City no longer transfers based on a percent of revenue; it is a flat rate. He stated that staff would check with the cities of Sacramento, Roseville, Turlock, and Modesto to see if this has negatively affected their expansion.

Council Member Hansen added that the City may not reimburse costs as does the investor-owned utilities; however, Lodi's industrial and commercial rates in certain categories have historically been lower, which he believed offset the cost issue for those looking to locate in Lodi.

With the aid of an overhead (filed), Deputy City Manager Krueger provided an overview of the various impact fees (i.e. water, sewer, storm drainage, etc.) that developers pay for a typical residential unit. With the proposed electric substation fee of \$819 included, a typical residential development would pay a total of \$20,500 in impact fees.

Council Member Hansen requested that staff provide a comparison of Lodi's impact fees with other cities in San Joaquin County when this matter comes back before Council.

City Manager King confirmed that various elements of the impact fees would increase at some point in the future and that the list did not include all of the impact fees (i.e. regional transportation impact fee, habitat conservation impact fee, etc.).

PUBLIC COMMENTS:

- Jeffrey Kirst stated that ten years ago the development community went from paying a fairly low rate to suddenly paying all associated costs. The development community had expressed to the City Manager at that time that it wanted to be on par with PG&E's rates, and in order to do so, it was determined that developers would pay for its portion of the wire and substructures for residential projects. He believed the reason PG&E reimbursed the money for the hard wiring was due to the fact that the California Public Utilities Commission ruled that the utility would be receiving a gift. He reiterated that the development community would like to be on parity with PG&E.

C. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS

None.

D. ADJOURNMENT

No action was taken by the City Council. The meeting was adjourned at 7:49 a.m.

ATTEST:

Jennifer M. Perrin
Interim City Clerk